



City of Dover

New Hampshire

Investment Policy

Fiscal Year 2004

Prepared by the Finance Department



City of Dover, NH

Finance Department

Investment Policy

May 5, 2003

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I. Introduction

It is the policy of the City of Dover to invest public funds in a manner that will provide maximum security of the funds and a yield consistent with this level of security, while meeting the daily cash flow demands of the city and conforming to all laws governing the investment of public funds.

II. Scope

The City operates a consolidated cash account for all funds, excluding Trust Funds. This includes the General Fund, Special Revenue, Capital Projects, Enterprise, Internal Service and Agency Funds. This policy applies to the investment of these funds. Investment income will be credited to the General Fund unless provisions of State or Federal law concerning certain funds require otherwise. Trust Funds are excluded from this policy.

III. General Objectives

The primary objectives of investment activities, in order of priority, shall be safety, liquidity and yield:

- A. Safety - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
 - 1. Credit Risk - The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
 - a. Limiting investments to the safest types of securities
 - b. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business
 - c. Diversifying the investment portfolio so potential losses on individual securities will be minimized.
 - 2. Interest Rate Risk - The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
 - a. Structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
 - b. Investing operating funds primarily in shorter-term securities, including shares in a local government investment pool.
 - 3. Ineligible Trading Techniques - The investment officer shall refrain from purchasing investments using the following techniques:
 - a. No investments will be made by leveraging techniques, i.e., purchasing on margin or use of securities to acquire additional investments.
 - b. No trading shall occur involving selling short.
- B. Liquidity - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. For directly purchased securities, the maturity



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shall be concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, these securities should have active secondary or resale markets (dynamic liquidity). A large portion of the portfolio should be placed in more liquid investments, providing for daily liquidity.

- C. Yield - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:
1. A declining credit security may be sold early to minimize loss of principal.
 2. A security swap would improve the quality, yield, or target duration in the portfolio.
 3. Liquidity needs of the portfolio require that the security be sold.

IV. Standards of Care

- A. Prudence - The standard of prudence to be used by the investment officer shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

- B. Ethics and Conflicts of Interest - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their City.
- C. Delegation of Authority - Authority to manage the investment program is vested with the Finance Director/Treasurer, (herein referred to as investment officer) and derived from the following: City Charter Section 6-2, City Administrative Code 3-9 and NH State RSA 48:16. The investment officer shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates.



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V. Safekeeping and Custody

- A. Authorized Financial Dealer and Institutions – Use of security broker/dealers will be based on creditworthiness (a minimum capital requirement of \$100,000,000 and at least five years of operation). These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).
 - 1. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:
 - a. Audited financial statements
 - b. Proof of National Association of Securities Dealers (NASD) certification
 - c. Proof of state registration
 - d. Certification of having read the City’s investment policy
 - 2. An annual review of the financial condition and registration of qualified bidders will be conducted by the investment officer.
- B. Internal Controls - The internal controls shall address the following points:
 - 1. Control of collusion
 - 2. Separation of transaction authority from accounting and record keeping
 - 3. Custodial safekeeping
 - 4. Avoidance of physical-delivery securities
 - 5. Clear delegation of authority to subordinate staff members
 - 6. Written confirmation of transactions for investments and wire transfers
 - 7. Development of a wire transfer agreement with the lead bank or third party custodian
- C. Delivery vs. Payment - All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution at the time of release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

VI. Suitable and Authorized Investments

- A. Investment Types – The following investments will be permitted by this policy and are those defined by state law where applicable:
 - 1. US Government Obligations
 - 2. Participation units of the New Hampshire Public Deposit Investment Pool
 - 3. Certificates of Deposit in New Hampshire Banks
 - 4. Repurchase Agreements whose underlying security consists of US Government Obligations, US Government Agency Obligations or State of NH obligations.
- B. Financial institutions where funds are kept on deposit, in CDs or Repurchase Agreements must meet the following criteria:
 - 1. Minimum total assets of \$100 million
 - 2. Minimum of an average rating by IDC Publishing Inc.’s bank rating service



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3. Minimum ratio of equity capital to total assets of 5%
 4. Maximum ratio of non-performing assets to equity of 20%
- C. Collateralization - As authorized by state law, full collateralization will be required on non-negotiable certificates of deposit and repurchase agreements or other instrument as the investment officer requires.

VII. Investment Parameters

- A. Diversification - The investments shall be diversified by:
1. Limiting investments to avoid over-concentration in securities from a specific issuer or business sector, excluding U.S. Treasury securities
 2. Limiting investment in securities that have higher credit risks
 3. Investing in securities with varying maturities
 4. Continuously investing a portion of the portfolio in readily available funds such as Public Deposit Investment Pool (PDIP) or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
- B. Maximum Maturities - To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than six months from the date of purchase.

VIII. Reporting

- A. Methods – The investment officer shall prepare a cash position and investment report at least quarterly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio. This management summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be available to the City Manager and auditors. The report will include the following where appropriate:
1. Listing of individual securities held at the end of the reporting period, if applicable.
 2. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with GASB requirements).
 3. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
 4. Listing of investment by maturity date.
- B. Performance Standards – The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.
- C. Marking to Market - The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly.



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IX. Policy Considerations

This policy shall be reviewed on an annual basis. The investment officer and any other appropriate authority must approve any changes. The individual(s) charged with maintaining internal controls shall receive copies of the policy and any changes thereto.



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Exhibit 1.

Revised Statutes Annotated

CHAPTER 48 CITY OFFICERS

City Treasurer

Section 48:16

48:16 City Treasurer; Duties. –

I. The city treasurer shall have custody of all moneys belonging to the city. The treasurer shall deposit the same in participation units in the public deposit investment pool established pursuant to RSA 383:22, or in solvent banks in the state, except that funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the regional federal reserve bank collateral security for such deposits, United States government obligations, United States government agency obligations, or obligations of the state of New Hampshire in value at least equal to the amount of the deposit in each case. The amount of collected funds on deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus, except that a city with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank.

II. The city treasurer shall keep in suitable books provided for the purpose a fair and correct account of all sums received into and paid from the city treasury, and of all notes given by the city, with the particulars thereof. At the close of each fiscal year, he shall make a report to the city giving a particular account of all his financial transactions during the year. He shall furnish to the mayor and council statements from his books, and submit his books and vouchers to them and to the city auditors for examination, whenever so requested.

III. Whenever the city treasurer has in custody an excess of funds which are not immediately needed for the purpose of expenditure, the city treasurer shall, with the approval of the mayor and a majority of the city council, invest the same in obligations of the United States government, in participation units in the public deposit investment pool established pursuant to RSA 383:22, in savings bank deposits of banks incorporated under the laws of the state of New Hampshire or in certificates of deposits and repurchase agreements of banks incorporated under the laws of the state of New Hampshire or in banks recognized by the state treasurer. At least yearly, the city council or board of aldermen shall review and adopt an investment policy for the investment of public funds in conformance with the provisions of applicable statutes.

IV. The city treasurer shall pay out fees held pursuant to RSA 673:16, II upon the order of the local land use board or its designated agent or in the case of moneys held pursuant to RSA 674:44-a upon order of the heritage commission.

V. Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the city. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Source. 1939, 170:2. RL 65:15. 1949, 207:1. RSA 48:16. 1959, 197:2. 1973, 490:2. 1991, 268:9; 377:7; 383:10. 1992, 64:4, eff. June 19, 1992. 1996, 209:11, eff. Aug. 9, 1996. 1997, 208:9, eff. Aug. 17, 1997. 1998, 40:3, eff. July 4, 1998.



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Exhibit 2.

City Charter

C6-2. Finance Director.

The Manager shall appoint a Finance Director who shall maintain accounting control over the finances of the city, make financial reports and perform such other related duties as may be required by the administrative code. He/she shall audit and approve all authorized claims against the city before paying the same.

Administrative Code

3-9. Finance Department.

A. There shall be a Finance Department, headed by the Finance Director and appointed in accordance with the City Charter, which shall consist of the following divisions: Financial Control and Management, Treasury, Assessing, Tax Collection and Accounts Receivable, Data Processing and Purchasing. The Finance Director shall be responsible for the administration, coordination and direction of the Finance Department and its divisions.

- (1) The Financial Control and Management Division shall be responsible for the following:
 - (a) Preaudit and approve all purchases.
 - (b) Approve all authorized claims against the city before authorizing payment.
 - (c) Post audit all receipts and disbursements.
 - (d) Maintain the financial accounts of the city and exercise accounting control over them.
 - (e) Prepare financial reports as required by the City Manager.
 - (f) Negotiate loans and borrowing moneys upon the authorization of the City Council and City Manager.
 - (g) Maintain custody of all insurance policies.
 - (h) Countersign all checks and drafts of the city.
 - (i) Maintain employee personnel action records and sick- leave records.
 - (j) Perform other related duties as required.
- (2) The City Treasurer shall be responsible for the operation and supervision of the Treasury Division, with the following duties and responsibilities:
 - (a) Have all the statutory powers and perform all the statutory duties of city or town treasurers.
 - (b) Have custody of all city funds, investments and securities, including the deposit, withdrawal and recording thereof, as required by law.
 - (c) Keep records of the trust funds and invest them as permitted by law.
 - (d) Carry out the duties of treasurers of municipal corporations as set forth in RSA Chapter 33, Municipal Finance Act, and any amendments thereto, relating to bonds, notes and records thereof, and all other statutory requirements of city or town treasurers.
 - (e) Sign all checks, drafts, notes and bonds of the city.
 - (f) Deposit all public moneys daily in the depositories designated by the City Council.
 - (g) Deposit all moneys received from parking meters in a separate account, which money shall be used exclusively for the purposes provided by law.
 - (h) Maintain a register of all bonds and notes of the city, as required by law.
 - (i) Maintain all city employee earning records, including records of all deductions from earnings for retirement, social security, Blue Cross, Blue Shield, United States savings bonds and any other purposes.
 - (j) Perform other related duties as required.



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Exhibit 3.

Definitions of Common Investment Terms

Arbitrage. The simultaneous buy and sell of similar assets in order to profit from a price difference between the two assets, such as stocks, bonds, commodities, and currencies. The term is commonly used by municipal debt issuers for investing bond proceeds.

Book-entry. A system of recording securities ownership through electronic accounts.

Collateral. Underlying securities that are pledged to secure deposits of public funds. Also used in conjunction with repurchase agreements to protect the entity from default by the counter party.

Custody. The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the *custodian*.

Delivery versus payment (DVP). A settlement procedure where the payment for a security purchase is made simultaneously with the transfer of the purchased securities. The same procedure applies for securities sale: the securities are transferred as payment is made.

Discount. The amount by which a bond sale sells under its par (face) value.

Diversification. Dividing investment funds among a variety of securities, offering independent returns, to reduce risk inherent in particular securities.

Leverage. An attempt to increase the rate of return on an investment by buying securities on margin or using borrowed funds for investment purposes. This practice can be risky if interest rates rise or investment yields are lower than expected.

Marking to market. The practice of valuing a security or portfolio according to its market value, rather than its cost or book value.

Passive investment management. An investment strategy where securities are bought with the intention of holding them to maturity or investments in benchmarked products designed to yield a market rate of return.

Rate of return. The amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest rate environment utilizing a buy and hold to maturity investment strategy.

Repurchase agreement. A transaction in which a holder of securities sells those securities to an investor with an agreement to repurchase those securities for a fixed price at an agreed upon date. A master repurchase agreement is a written contract governing all future transactions between the parties and seeks to establish each party's rights in the transaction.

Reverse repurchase agreement. The opposite of a repurchase agreement. The investor owns the securities or collateral and a bank or dealer temporarily exchanges cash for the collateral, for a specified period of time at an agreed upon interest rate.

Safekeeping. A procedure where securities are held by a third party acting as custodian for a fee.

Yield. The percentage return on an investment; also called *return*. There are several yield calculations that can be made, such as *yield to maturity*, the promised return assuming all interest and principal payments are made and reinvested at the same rate taking into account price appreciation (if priced below par) or depreciation (if priced above par), or *yield to call*, the yield an investor will receive if the security is called prior to maturity.